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March 2, 2004

RECEIVED

MAR 0 2 2004

PUBLIC SERVICE COMMISSION

Thomas M. Dorman
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RE: P.S.C. Case No. 2002-00475

Dear Mr. Dorman:

Please find enclosed the original and ten copies of the Responses of Kentucky Power Company d/b/a American Electric Power to the Data Requests set forth in the Commission's Order dated February 18, 2004. By copy of this letter I also am serving the persons listed below with a copy of the Responses.

Sincerely yours,

STITES & HARBISON PLLC

Mark R. Overstreet

Enclosures
cc: Elizabeth E. Blackford
Michael L. Kurtz
Brent L. Caldwell
M. Bryan Little

KE057:KE157:10627:1:FRANKFORT

COMMONWEALTH OF KENTUCKY

BEFORE THE

PUBLIC SERVICE COMMISSION OF KENTUCKY

RECEIVED

MAR 0 2 2004

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY POWER COMPANY)
d/b/a AMERICAN ELECTRIC POWER, FOR)
APPROVAL, TO THE EXTENT NECESSARY,)
TO TRANSFER FUNCTIONAL CONTROL OF)CASE NO. 2002-00475
TRANSMISSION FACILITIES LOCATED IN)
KENTUCKY TO PJM INTERCONNECTION, L.L.C.)
PURSUANT TO KRS 278.218)

RESPONSE OF KENTUCKY POWER COMPANY
D/B/A
AMERICAN ELECTRIC POWER

COMMISSION SUPPLEMENTAL DATA REQUESTS

March 2, 2004

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to Exhibits JCB-1 and JCB-4 to the direct testimony on rehearing of J. Craig Baker ("Baker Testimony").

a. Explain whether the amounts shown as off system sales profits are the total amounts of such profits projected for Kentucky Power or the amounts of such profits in excess of the $11,315,336 already reflected in Kentucky Power's base rates.

b. Explain whether Exhibits JCB-1 and JCB-4 reflect the gross amounts of off system sales profits projected for Kentucky Power or the net amounts that flow through to ratepayers after the 50 percent sharing of profits in excess of $11,315,336 through Kentucky Power's system sales clause.

c. If Exhibits JCB-1 and JCB-4 do not reflect the amount of off system sales profits net of the 50 percent sharing, file revised Exhibits JCB-1 and JCB-4 that reflect the profits net of such sharing.

RESPONSE

The amounts shown as off-system sales profits in Exhibits JCB-1 and JCB-4 under Cases 1 and 1A are gross numbers and represent additional off-system sales margins from levels shown in Case II (AEP stand-alone), as calculated by the CERA study. The CERA study uses a marginal cost approach in the GE-MAPS production cost simulations to estimate the cost/benefit of joining PJM. This approach is useful when comparing different scenarios such as RTO vs. no RTO. As such Exhibits JCB-1 and JCB-4 do not show the rate impact on KPCO's retail customers. The System Sales tracker will continue to operate as currently established in Case No. 9061 to allocate any incremental off-system sales from RTO participation.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to exhibits JCB-1 and JCB-4 to the Baker Testimony.

a. Explain whether Exhibits JCB-1 and JCB-4 reflect the expiration of Kentucky Power's purchase of Rockport Unit Power on December 31, 2004.

b. If no, explain in detail what assumptions were made regarding the Rockport Unit Power purchase.

c. If yes, file revised Exhibits JCB-1 and JCB-4 that reflect a continuation of the existing Rockport Unit Power purchase through 2008 and explain why the Rockport Unit Power purchase is not being continued as previously agreed to by American Electric Power ("AEP").

RESPONSE

a.-c. For the purposes of the study it was assumed that 15% of each of the two Rockport units' projected output was assigned to Kentucky Power for the 2004-2008 study period, although AEP does not concur with the representation made by question 2c.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Baker Testimony, page 23, line 15, to page 24, line 5, which discusses how Kentucky Power's membership in PJM Interconnection L.L.C. ("PJM") "will enhance the reliability of AEP's transmission in Kentucky and minimize curtailments." Provide a schedule that lists each curtailment in Kentucky since January 1, 1999. For each curtailment listed, state the specific areas curtailed, the length of the curtailment, the reason for the curtailment, and explain in detail how Kentucky Power's membership in PJM would have eliminated or reduced the curtailment.

RESPONSE

There have been no transmission related curtailments that impacted Kentucky Power retail load customers from January 1, 1999 to the present.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the Baker Testimony, page 24, lines 6-19. Assume for the purposes of this question that the referenced court proceedings result in a ruling that KRS278.214 is a valid, constitutional requirement.

a. If Kentucky Power does not join PJM, will Kentucky Power comply with KRS278.214?

b. If Kentucky Power does join PJM, will Kentucky Power still be engaged in the transmission of electricity within its certified territory? If yes, will Kentucky Power comply with KRS278.214? If no, has Kentucky Power received any assurances from PJM that PJM will provide the transmission priority required by KRS278.214?

RESPONSE

a. If Kentucky Power does not join PJM and KRS 278.214 is upheld as constitutional, the Company will comply with it.

b. If Kentucky Power joins PJM, transmission service will be provided by PJM under its Open Access Transmission Tariff, and PJM, not the Company, will be responsible for curtailment under the tariff. Kentucky Power has not received any assurances from PJM related to the transmission priority contained in KRS 278.214.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

If AEP East joins PJM, will it be required to offer for sale in the PJM market all energy not needed to serve internal load? If yes, explain why Kentucky Power should continue to share, on a 50-percent basis, the off system sales profits in excess of the level incorporated into base rates.

RESPONSE

No.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Item 2 of the Commission Staff's ("Staff") January 22, 2004 data request regarding the amount of energy AEP produces that is not offered on the spot market, but instead is used to meet AEP's internal load requirement under implicit bilateral contracts.

a. Provide the amount of energy projected to be used to supply AEP's internal system load requirements for each year of the study period. The choices that Cambridge Energy Research Associates ("CERA") made to model this energy are not relevant to the question.

b. Explain why CERA's study results are valid if its study is based on the assumption that the majority of AEP's generation output would be offered on the spot market if, in fact, the majority of AEP's output is retained to serve its native load.

RESPONSE

a. Table 1 below provides the amount of energy projected to be used to supply AEP's internal system load requirements for each of the study periods, for two Scenarios -AEP in PJM and AEP not in PJM.

Table 1
AEP's Internal Energy Requirements Estimate (in 000 MWh)
Study Period 2004-2008

Year	2004		2005		2006		2007		2008	
Scenario	Case I AEP in PJM	Case II AEP Stand Alone	Case I AEP in PJM	Case II AEP Stand Alone	Case I AEP in PJM	Case II AEP Stand Alone	Case I AEP in PJM	Case II AEP Stand Alone	Case I AEP in PJM	Case II AEP Stand Alone
Internal Energy Estimate	117,275	117,275	119,949	119,949	121,987	121,987	124,281	124,281	126,305	126,305

b. The CERA study is not based on an assumption that the majority of the AEP generation would be offered on the spot market. The CERA model committed all generators available in the study-region for the next day as part of the security-constrained unit commitment (SCUC) process. Then, the model dispatched generation available from these committed units on a market-based security-constrained economic dispatch basis to serve all load. The difference between the AEP System operating companies' internal requirements and the total AEP resources dispatched in the model was treated as off-system sales. Therefore, most of the generation was treated to serve its native load. AEP will ensure that its low-cost generation fleet, or less expensive power, as available, will first serve its internal load and the excess will be made available as off-system sales.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Items 3 and 16 of the Staff's January 22, 2004 data request and Item 5 of the Staff's February 7, 2003 data request regarding the costs AEP has incurred related to formation of a Regional Transmission Organization ("RTO") and, specifically, the costs incurred in order to integrate AEP into PJM.

a. Explain whether AEP has incurred any costs related to the Midwest Independent System Operator ("MISO") or the Alliance RTO in addition to the amounts as of December 31, 2002, shown in the response to the February 7, 2003 data request.

b. Provide, through the most recent month for which the information is available, the total cost related to RTO formation that has been recorded on the books of the AEP East operating companies, inclusive of carrying costs. The components that make up this total, such as costs related to MISO, the Alliance, or PJM, carrying costs, etc. should be separately identified.

RESPONSE

a. AEP has not incurred any additional costs associated with the development of MISO since December 31, 2002, exclusive of related carrying charges. Through January 31, 2004, AEP has deferred an additional $479,743 since December 31, 2002, exclusive of related carrying charges, in Account 186 for residual start-up costs of the Alliance RTO.

b. As of January 31, 2004, the AEP East operating companies have deferred $29,080,294 in Account 186 for the following RTO formation/integration costs:

MISO Development costs	$ 2,695,576
Alliance Start-up costs	8,247,691
Costs to Integrate into PJM	14,854,355
Carrying Charges on Deferred RTO costs	3,282,672
Total	$29,080,294

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Item 18 of the Staff's January 22, 2004 data request regarding the Federal Energy Regulatory Commission's ("FERC") conditions placed upon its approval of AEP's merger. Provide a general description of the current status of any ongoing appeals or court proceedings related to the AEP merger.

RESPONSE

The FERC's order conditionally approving AEP's merger was upheld on appeal in Wabash Valley Power Association v. FERC, 268 F. 3d 1105 (2001). There are no ongoing proceedings involving that order. The Securities and Exchange Commission's ("SEC") order approving AEP's merger was remanded to the SEC in National Rural Electric Coop. Association v SEC, 276 F. 3d 609 (2002). The matter is still pending on remand.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Item 21 of the Staff's January 22, 2004 data request regarding the "limited participation in PJM" alternative, which AEP has raised as a means of resolving the dispute pending before FERC in Docket No. ER03-262-009.

a. Explain whether it is AEP's intent that discussion of this alternative be confined to the FERC proceeding.

b. If the answer to part (a) is that AEP intends for this alternative to be confined to the FERC proceeding, explain why this alternative was included in the cost-benefit analysis filed in this proceeding on December 23, 2003.

RESPONSE

The limited participation scenario was proposed to initiate a dialogue among regulators, including the Federal Energy Regulatory Commission and the Kentucky Public Service Commission, as a potential means of resolving the dispute now pending before FERC in Docket No ER03-262-009. This scenario was included as part of this analysis to provide additional information related to the cost/benefit of AEP's RTO participation.

WITNESS: J Craig Baker

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Item 28 of the Staff's January 22, 2004 data request regarding the expectations of CERA concerning resolution of various wheeling rate issues.

a. The response indicates CERA's expectations reflect its experience and judgment, its relationships with transmission professionals and its discussions with such professionals and others in the context of work on its "Grounded in Reality" study. Aside from how it developed its expectations, identify and describe the factors which, based on its experience, etc. led CERA to the expectations/conclusions set out on page 6 of Exhibit HS-1 to the Direct Testimony and Exhibits of Hoff Stauffer.

b. Describe the changes that would occur in Scenario A, described on page 6 of the exhibit if, contrary to CERA's assumptions, it is assumed that wheeling rates between Southeast transmission owners and the rest of the Eastern Interconnect do not remain in place.

RESPONSE

a. CERA is in continuous contact with members of the industry, in such forums as the Grounded In Reality Study, the CERA Transmission Service, various Roundtables, Executive Retreats, site visits, Board presentations, and CERA Week. CERA has a good feel for what the various parties are thinking, and based on this, CERA makes judgments about what is likely to happen. In addition, the utilities in the areas for which CERA assumed no wheeling rates are either: 1) already part of an RTO, 2) have RTO applications pending FERC approval (such as SPP at the time when this study was conducted and now conditionally approved as an RTO) or 3) have signed a seams agreement with the neighboring RTOs and there is a good possibility that these participants, such as TVA, may consider reciprocal elimination of wheeling rates with adjacent RTOs.

b. As explained on Page C-13 of Exhibit HS-1, the sensitivity of rate elimination in TVA and SPP to the study results is insignificant. Table # C-26 on page C-13, provides the change in annual flows with depancaking TVA and SPP. As can be seen this Table, SPP and TVA are net importers for the study period and annual average flow between AEP and TVA as well as Carolina companies and TVA is very small. Therefore, the impact of depancaking TVA and SPP is insignificant.

Similarly, if it is assumed that wheeling rates between Southeast transmission owners and the rest of the Eastern Interconnect do not remain in place, the results of the study would not be expected to be significantly impacted because even the impact of the TVA and SPP rate elimination is insignificant. The southeastern systems are electrically even farther south of TVA and SPP, and the impact on the study results is not expected to have any material impact on the study results.

WITNESS: Hoff Stauffer

Kentucky Power
d/b/a
American Electric Power

REQUEST

Refer to the response to Item 31 of the Staff's January 22, 2004 data request regarding the "inefficiencies associated with bilateral markets."

a. Explain why it should not be considered circular reasoning to assume inefficiencies or efficiencies in the basic data inputs of a study that purports to demonstrate the difference in efficiency between two or more scenarios.

b. The inefficiencies associated with bilateral markets may be relevant in a study designed to demonstrate the efficiencies of competition in energy markets, but there is no explanation for why it is relevant to a study on the benefits of RTO membership. Explain how the "inefficiencies associated with bilateral markets" relate to the costs and benefits of AEP's membership in PJM.

RESPONSE

a. CERA does not believe it is circular reasoning. It is critical to make the distinction in commitment and dispatch between having a single ISO/RTO perform these functions on a regional basis versus having different groups perform these functions separately, whether they be ISOs/RTOs on the one hand or individual companies on the other. The single ISO/RTO has the information and authority to perform these functions optimally across a broader region. Other situations cannot be as efficient, since multiple entities would lack both the information to figure out what is optimal and the authority to make it happen.

b. These inefficiencies are directly relevant to the issue of AEP joining PJM; if AEP would join PJM, the PJM ISO/RTO would have the information and authority to conduct unit commitment and dispatch optimally for both AEP and the rest of PJM.

WITNESS: Hoff Stauffer